LEGISLATIVE AUDIT DIVISION

REPORT SUMMARY

MANAGING VACANT POSITIONS IN STATE AGENCIES

Performance Audit
November 2004
Audit # 04P-05

INTRODUCTION The Legislative Audit Committee requested a performance audit of the management of vacant positions in state agencies. Key audit areas include:

- Determine the extent of vacant positions, statewide vacancy rates, and reasons positions are vacant.
- Identify key factors that influence both the number of vacant positions and length of time positions remain vacant.
- Determine how agencies manage vacant positions and use these vacancies to meet the vacancy savings rate mandated by the Legislature.
- Assess the impact of vacant positions on agency operations.

BACKGROUND The personal services budget for each agency is built on a position-by-position basis for all authorized positions whether filled or vacant. In theory, agencies do not incur expenses for salaries and benefits during the time positions are vacant – agencies realize a savings in salaries. In 1979, the Legislature recognized this concept and implemented a fiscal policy designed to capture the savings achieved due to employee vacancies. The Legislature initiated a practice of budgeting for projected salary savings due to vacancies. Since 1979, agency appropriations have been reduced by the amount of savings the Legislature projected would occur during an upcoming biennium based on the Governor's Office of Budget and Program Planning (OBPP) projections. For example, if the Legislature projects agencies will experience salary savings of two percent due to employee turnover and vacant positions – agencies receive 98 percent of the dollars needed to fully fund their personal services. This concept is commonly referred to as vacancy savings.

SUMMARY ISSUES After 25 years, the original concept and subsequent use of vacancy savings is now well established. While the original goal of the program – to capture unused payroll dollars during the time positions are vacant – has been achieved, there have been other impacts on the way managers administer the workforce.

Vacant Positions Are Increasing One of the objectives of the performance audit was to determine the extent of vacant positions, statewide vacancy rate, and reasons positions are vacant. We found the number of vacancies has increased well beyond the legislatively mandated rates prescribed under vacancy savings. For example, for the

2005 biennium the Legislature implemented an average vacancy savings rate of 4.5 percent, however our analysis shows the vacancy rate currently exceeds 8.38 percent. In addition, our analysis of vacant FTE between 1992 and 2004 shows the vacant FTE rate has doubled. In 1992, 5.14 percent of state FTE was vacant; the rate climbed as high as 10.53 percent, and the current rate is 8.38 percent. A larger percent of FTE are vacant today compared to 12 years ago. We also found a pattern of long-term vacancies. Twenty-eight percent of vacant FTE have been vacant for a year or longer. In fact, 143 positions have been vacant since at least July 1, 1999.

Agencies Use Vacant Positions For Fiscal Purposes Agencies react to vacancy savings mandates by keeping more positions vacant and extending the length of time positions remain vacant. Because the budget reductions are targeted toward personal services, the agencies have few choices – managers cannot fill all the authorized positions because they are not given the funding. Other key points relating to the current status of managing vacant positions include:

- State agencies have an incentive to make sure the construction of the base budget includes all positions, even if there is not an immediate goal to fill each vacant position included in the personal services base-budget “snapshot”.

- Agencies are forced to keep vacant positions open for longer periods of time to address the additional budgetary pressures of termination and retirement payouts, unfunded pay and benefit adjustments, and agency initiated salary adjustments and management initiatives.

- The “advertised benefit” of vacancy savings is being offset in some agencies by the use of overtime, pay differential, and contracted services.

Need to Review and Eliminate Long-Term Positions Increasing vacant positions and the numbers of long time vacant positions are the effects of current budget strategies adopted by the budget office and the Legislature. Long-term vacant positions are not part of naturally occurring vacancy rates. The fact agency management has allowed positions to remain vacant for an extended period of time suggests the positions are not necessary to agency operations.

Other states have taken steps to ensure that vacant positions are related to natural occurrences and the positions are essential for agency operations. For example, California state law requires the Comptroller to eliminate positions that are vacant for six consecutive months. Waiver provisions are provided for “hard to fill” positions. Additional measures discourage agencies from moving staff between vacant positions.

To establish more accurate data of the positions necessary to provide current state government services, OBPP needs to examine authorization for all positions that have been vacant for one year or longer and remove associated funds from the base budget. As of March 17, 2004 there were 297 vacant FTE meeting this criteria. In addition, OBPP should review the need for keeping those positions that have been vacant between six months to one year and consider eliminating those positions agencies cannot justify keeling.

Eliminating these long-term vacant positions from the base budget initial request will generate a reduction in personal services budget requests of from $20.7 million to $34 million for the biennium. This projection includes FTE funded from all fund types. Eliminating only House Bill 2 vacant positions would reduce personal services budget requests by $15.6 million to $26.9 million for the biennium.

Need to Reduce Mandated Vacancy Savings Rate If Positions Are Eliminated

Agencies use the budget authority associated with long-term vacant positions to meet vacancy savings mandates. If long-term vacant positions are eliminated from the base budget, affected agencies will no longer have the major mechanism used to meet agency initiatives, unfunded personnel costs and mandated vacancy savings. If long-term vacant positions are eliminated, then a reduction to the mandated vacancy savings rate must also be considered. Any vacancy rates remaining will most likely reflect more accurately the naturally occurring vacant rate.